THE LEGISLATIVE ASSEMBLY OF
BRITISH COLUMBIA

# ANNUAL SUMMARY OF ACTIVITIES

SELECT STANDING COMMITTEE ON PUBLIC ACCOUNTS

THIRD REPORT
THIRD SESSION, THIRTY-EIGHTH PARLIAMENT

FEBRUARY 2008

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2008-02678/

March 11, 2008

To the Honourable
Legislative Assembly of the
Province of British Columbia

Honourable Members:

I have the honour to present herewith the Third Report of the Select Standing Committee on Public Accounts.

This Report contains the summary of committee activities during the third session.

Respectfully submitted on behalf of the Committee,

Rob Fleming, MLA
Chair

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# Composition of the Committee

## Members

| | | |
|---|---|---|
| Rob Fleming, MLA | Chair | Victoria-Hillside |
| Joan McIntyre, MLA | Deputy Chair | West Vancouver-Garibaldi |
| Harry Bains, MLA | | Surrey-Newton |
| Iain Black, MLA | | Port Moody-Westwood |
| Guy Gentner, MLA | | Delta North |
| Randy Hawes, MLA | | Maple Ridge-Mission |
| Mary Polak, MLA | | Langley |
| Bruce Ralston, MLA | | Surrey-Whalley |
| John Rustad, MLA | | Prince George-Omenica |
| Ralph Sultan, MLA | | West Vancouver-Capilano |
| Diane Thorne, MLA | | Coquitlam-Maillardville |
| John Yap, MLA | | Richmond-Steveston |

## Clerk to the Committee

Craig James, Clerk Assistant and Clerk of Committees

## Committee Researchers

Josie Schofield, Committee Research Analyst
Lindsay Gardner, Committee Researcher (fall 2007)

## TERMS OF REFERENCE

On March 1, 2007, the Legislative Assembly agreed:

1. That the reports of the Auditor General of British Columbia deposited with the Speaker of the Legislative Assembly during the Third session of the Thirty-eighth parliament be deemed referred to the Select Standing Committee on Public Accounts, with the exception of the report referred to in section 22 of the *Auditor General Act* which is referred to the Select Standing Committee on Finance and Government Services, and in addition that the following reports of the Auditor General of British Columbia be referred to the Select Standing Committee on Public Accounts:
   - Report No. 13, 2004/2005: *Building Momentum for Results-based Management: A Study about Managing for Results in British Columbia* (March 2005)
   - Report No. 3, 2005/2006: *Audit of the Government's Corporate Accounting System: Part 1* (June 2005)
   - Report No. 10, 2005/2006: *Building Better Reports: Our Assessment of the 2004/05 Annual Service Plan Reports of Government* (March 2006)
   - Report No. 3, 2006/2007: *Treaty Negotiations in British Columbia* (November 2006)
   - Report No. 4, 2006/2007: *Province of British Columbia Audit Committees: Doing the Right Things* (December 2006)
   - Report No. 5, 2006/2007: *Audit of Government's Corporate Accounting System: Part 2* (December 2006)
   - Report No. 6, 2006/2007: *Monitoring the Government's Finances* (December 2006)
   - Report No. 7, 2006/2007: *Government's Post-secondary Expansion -- 25,000 Seats by 2010* (December 2006)
   - Report No. 8, 2006/2007: *Changing Course -- A New Direction for British Columbia's Coastal Ferry System* (December 2006)
   - Report No. 9, 2006/2007: *Seeking Best Practices in Financial Reporting: Report on the Province's 2005/2006 Public Accounts* (January 2007)
   - Report No. 8, 2004/2005: Follow-up of 2002/2003 Report 5: *Managing Contaminated Sites on Provincial Lands* (November 2004)
   - Report No. 9, 2004/2005: Follow-up of Two Health Risk Reports: *A Review of Performance Agreements; Information Use in Resource Allocation* (December 2004)
   - Report No. 12, 2004/2005: Third Follow-up of 2000/2001 Report 4: *Management Consulting Engagements in Government* (March 2005)
   - Report No. 1, 2005/2006: Follow-up of the Recommendations of the Select Standing Committee on Public Accounts contained in its Fourth Report of the 3rd Session of the 36th Parliament: *Earthquake Preparedness; Performance Audit* (May 2005)
   - Report No. 2, 2005/2006: Joint Follow-up of 2001/2002 Report 1: *Managing Interface Fire Risks* and *Firestorm 2003 Provincial Review* (May 2005)
   - Report No. 7, 2006/2007: Follow-up of 2003/2004 Report 4: *Alternative Payments to Physicians: A Program in Need of Change* (February 2006)
   - Review Engagement Report re: Partnerships BC Project Report: *Achieving Value for Money Sea-to-Sky Highway Improvement Project* (December 20, 2005)

2. That the Select Standing Committee on Public Accounts be the committee referred to in sections 2, 6, 7, 10, 13 and 14 of the *Auditor General Act*.

In addition to the powers previously conferred upon the Select Standing Committee on Public Accounts, the Committee be empowered:

(a) to appoint of their number, one or more subcommittees and to refer to such subcommittees any of the matters referred to the Committee;
(b) to sit during a period in which the House is adjourned, during the recess after prorogation until the next following Session and during any sitting of the House;
(c) to adjourn from place to place as may be convenient; and
(d) to retain personnel as required to assist the Committee,

and shall report to the House as soon as possible, or following any adjournment, or at the next following Session, as the case may be; to deposit the original of its reports with the Clerk of the Legislative Assembly during a period of adjournment and upon resumption of the sittings of the House, the Chair shall present all reports to the Legislative Assembly.

## THE WORK OF THE COMMITTEE

During the spring sitting, the work of the all-party Select Standing Committee on Public Accounts (the PAC) focused mainly on conducting the search process for a new Auditor General, pursuant to sections 2 and 7 of the *Auditor General Act*. Our first report to the House (May 2007) contained the Committee's unanimous recommendation to appoint John Doyle, CA as the province's fourth Auditor General. On May 28, 2007, the Legislative Assembly accepted the Committee's recommendation.

Mr. Doyle hails from the audit office of Western Australia and commenced his official duties on October 29, 2007. To facilitate a smooth transition, the Legislative Assembly appointed Errol Price as acting Auditor General, effective from June 2, 2007. He replaced Arn van Iersel who held this position from May 31, 2006 to June 1, 2007.

At the start of the third session, the PAC carried out its statutory function related to the retention and disposal of government records. This process was summarized in our second report, which was approved by the House on November 22, 2007.

To fulfil other parts of its mandate, the PAC held six planning subcommittee meetings (March 29, April 16, October 30, November 8 and 27, 2007 and January 8, 2008) and eight meetings (March 5, April 19, May 3 and 31, October 16, November 20, December 3, 2007 and February 11, 2008).

The Chair attended the Public Accounts Advisory Group meeting in Ottawa (June 7 to 8, 2007).

In the summer, the PAC hosted the 28th Annual Conference of the Canadian Council of Public Accounts Committees, which was held in the provincial capital from August 19 to 21, 2007. Seven committee members attended, including the Chair and Deputy Chair who presided over two business sessions. The Clerk to the Committee and the PAC Research Analyst were also present.

On November 1, 2007, the Chair, Deputy Chair, committee member John Yap and the PAC research analyst met with a 16-member delegation participating in the Canada-China Legislative Cooperation Project. As part of their study tour on the budget process and parliamentary oversight, the delegates were interested in learning about the oversight role and functioning of the BC PAC.

At the December 3, 2007 meeting, committee members were briefed by Geoff Dubrow, Director, Capacity Development, CCAF-FCVI Inc. on the topic of "Maximizing the Effectiveness of Public Accounts Committees." The Auditor General and the Comptroller General also gave a presentation on "Emerging Issues in Accounting."

During the third session, the PAC has reviewed 11 main reports and one follow-up report tabled by the Office of the Auditor General with the Speaker of the Legislative Assembly. The topics cover financial reporting, treaty negotiations, post-secondary education, transportation policy, the child and youth mental health system and health-related matters. The PAC also reviewed and approved the Auditor General's annual financial statement audit coverage plan.

The planning subcommittee decided not to review two audit reports that have been, or are in the process of being, superseded by new information — namely, the ones dealing with results-based management (March 2005) and annual service plan reports for 2004/05. As well, the subcommittee excluded the special audit of the Legislative Assembly since it was commissioned by the Speaker.

By the end of the third session, the PAC had not reviewed the following reports tabled by the Office of the Auditor General during the past four fiscal years:

**Audit Reports:**

Report No. 3, 2007/08: *A Review of the Vancouver Convention Centre Expansion Project: Governance and Risk Management*

Report No. 5, 2007/08: *Preventing Fatalities and Serious Injuries in B.C. Forests: Progress Needed*

Report No. 6, 2007/08: *Literacy: Creating the Conditions for Reading and Writing Success*

**Follow-up Reports:**

Report No. 8, 2004/2005: Follow-up of 2002/2003 Report 5: *Managing Contaminated Sites on Provincial Lands* (November 2004)

Report No. 9, 2004/2005: Follow-up of Two Health Risk Reports: *A Review of Performance Agreements; Information Use in Resource Allocation* (December 2004)

Report No. 12, 2004/2005: Third Follow-up of 2000/2001 Report 4: *Management Consulting Engagements in Government* (March 2005)

Report No. 1, 2005/2006: Follow-up of the Recommendations of the Select Standing Committee on Public Accounts contained in its Fourth Report of the 3rd Session of the 36th Parliament: *Earthquake Preparedness; Performance Audit* (May 2005)

Report No. 2, 2005/2006: Joint Follow-up of 2001/2002 Report 1: *Managing Interface Fire Risks* and *Firestorm 2003 Provincial Review* (May 2005)

Report No. 7, 2006/2007: Follow-up of 2003/2004 Report 4: *Alternative Payments to Physicians: A Program in Need of Change* (February 2006)

Report No. 4, 2007/2008: *Follow-up of 2004/2005 Report 3: Preventing and Managing Diabetes in British Columbia* (December 2007)

**Other:**

BC's Auditor General comments on Sea-to-Sky Highway Improvement Project Report (December 21, 2005)

Copies of the Auditor General's reports are available at: http://bcauditor.com/AuditorGeneral.htm.

Minutes and transcripts of committee meetings and the reports of the Public Accounts Committee are available on the Legislative Assembly's website at: www.leg.bc.ca/cmt/pac.

# AUDITOR GENERAL REPORTS NO. 3, 2005/2006 AND NO. 5, 2006/2007:

## AUDIT OF GOVERNMENT'S CORPORATE ACCOUNTING SYSTEM: PARTS 1 AND 2

The Public Accounts Committee met on March 5, 2007 to consider the Office of the Auditor General's two reports on the audit of government's corporate accounting system. The committee heard presentations from the Office of the Auditor General (OAG) and the Ministry of Finance.

### SUMMARY OF OAG REPORTS

The two OAG reports summarize the results of a large multi-year IT audit of the corporate accounting system (CAS). All government ministries and numerous agencies enter their financial information into this central accounting and financial reporting system. The CAS processes and records electronically billions of dollars of government payments and revenue— with almost 7 million transactions recorded in the system annually. Since the CAS is a very large and complex system, the OAG believes it is critical that strong governance and system controls be in place to prevent security and processing problems, or to detect them if they do occur.

The Part 1 audit report (released June 2005) presents the audit findings on controls over the governance of CAS, the UNIX operating system, and the Oracle database. The audit team found the control environment for the CAS to be well managed overall and suggested ways to strengthen it. The report's 14 recommendations called for improvements to policies, procedures and processes to enhance IT governance, management of UNIX passwords, monitoring access to information in the Oracle database and, finally, managing and monitoring firewall access.

The Part 2 audit report (released December 2006) focuses on the main component of CAS, the Oracle Financials Accounting System that runs on an UNIX operating system, using an Oracles database. This report highlights the work done by the OAG on evaluating the controls over granting access to the accounting software, maintaining supplier information, authorizing purchase of goods and services, and financial reporting.

The audit team's overall conclusion was that, with some exceptions, proper control procedures were in place and being followed to ensure that financial information is processed completely, accurately, and on a timely basis. However, the auditors identified several key areas where controls were inadequate to address the risks of incorrect access to the accounting system, inaccurate coding of the chart of accounts, electronic payments being made to incorrect or fraudulent suppliers, unauthorized transactions, and errors or fraud in ministry expenses.

Eleven of the Part 2 audit report's 52 recommendations are key ones that address the deficiencies in policies and procedures, and access restrictions. They focus on:

- strengthening controls to ensure the ongoing maintenance of appropriate CAS access (recommendations 1,2);
- formalizing monitoring activities to ensure the chart-of-accounts data remain current and relevant (recommendation 3);
- ensuring that only authorized and valid changes are made to supplier information such as bank accounts and addresses; that financial schedules supporting payments to suppliers are complete; that purchases of goods and services are properly authorized; and, finally, that

purchase transactions are adequately monitored for possible errors or fraud (recommendations 4 through 10);

- enhancing monitoring procedures to detect errors or fraud in ministry expenses (recommendation 11).

## Summary of Government's Response

The Comptroller General presented the response of the Ministry of Finance and the Ministry of Labour and Citizens' Services, which houses corporate accounting services, the office responsible for CAS operations. She began by presenting an overview of the roles and responsibilities of the entities involved in CAS governance — the Office of the Comptroller General, the Office of the Government Chief Information Officer (CIO), Treasury Board, the senior financial officers' council and senior client advisory groups.

Turning to the Part 1 audit report, the Comptroller General reported that corporate accounting services had implemented a plan that had addressed all 14 recommendations by November 2006. As a result, the CAS governance framework had been strengthened, and the security of the Oracle database and UNIX operating system had been enhanced with an automated auditing function, along with access restrictions and firewalls that exceeded the report's recommendations.

The witness then turned to actions taken in response to the Part 2 audit report and explained that 21 of the 52 recommendations have been implemented, with the remainder expected to be completed by the end of fiscal 2007. The 11 key recommendations have been addressed in four topical groupings: security administration, general ledger, supplier maintenance, and purchasing and accounts payable.

Concerning security administration (recommendations 1 and 2), the Comptroller General stated that the corporate accounting services office had substantially completed the timely updating of access profiles. There is now a relationship between payroll information and the notification of a change in employee status, with staff regularly comparing this information with access controls.

With regard to recommendation 3, relating to general ledger controls, the Comptroller General informed the PAC that existing monitoring had been formalized and documented to ensure that the public accounts and financial statements are accurate. She also stated that her office has undertaken communications with all senior financial officers with regard to their roles and responsibilities in ensuring ministry chart-of-account data is updated and maintained on a timely basis.

Turning to the seven recommendations on supplier maintenance controls, the witness reported that the supplier management project and the block and generic supplier review are in progress. She reported to the Committee that there had been only one case of attempted fraud related to supplier banking information, but it was detected and prevented. As a result, procedures related to supplier bank account information have been implemented, including follow-up of any anomalies in the information by the provincial treasury, as well as the requirement for ministries to have third-party verification of any changes to such information. In addition, transparency in supplier information has been improved by reviewing and removing generic supplier codes in the CAS left over from the old financial systems, and by reducing the number of block suppliers.

Re purchasing-and-accounts-payable controls, the Comptroller General reported that her office is currently working with the senior financial officers' advisory council to determine how to incorporate information on potential fraud into the training of all expense authorities within the ministries.

## COMMITTEE INQUIRY

After hearing from the witnesses, the committee inquiry focused on two major topics: security safeguards to protect the CAS, and processing problems related to the electronic procurement of goods and services. Individual committee members also sought clarification on the changing role of the Government CIO, and the definition of "ongoing action" (re OAG recommendations) in the Ministry of Finance handout (page 8).

### CAS Security Safeguards

*Fraud Prevention*

The committee's inquiry began with Members asking the Comptroller General what steps are being taken to protect the CAS against the types of fraud that have been successful in other jurisdictions. She responded by explaining that information is shared via her own network — the comptrollers-general council of Canada. As well, her office, along with the Government CIO's team, monitor situations in other jurisdictions to determine what the potential risks are to the province's financial management system and then adjust policy or technology as needed.

*System Access*

Members also raised concerns regarding inappropriate system access — in particular, the cases of existing employees who are temporarily assigned user access levels that remain in place after their assignment has ended, and former employees who might continue to retain access to the CAS following the termination of their employment. They were informed by the executive director of corporate accounting services that security access is determined by the ministries, on the advice of her office re appropriate levels of access for certain roles. She also added that detection of access anomalies is an automated process that is monitored daily, followed by a manual intervention.

*Firewall Protection*

Some committee members raised a concern about firewall security arising from the incidents cited in the Part 1 audit report (page 37) — the situation when the firewall was not functioning for 15 hours, and another occasion when unauthorized access was allowed in, with both due to human error. They asked the acting Auditor General whether he was satisfied with the steps taken by government to address the issue. He replied that the OAG would need to see the ministry's action plan before making a further assessment.

The executive director of corporate accounting services then explained that the central accounting system is protected by several layers of security to prevent unauthorized access. The first level is the government network, the firewall that protects the financial system from the open Internet. The second level is the CAS firewall that further restricts access, confining it to a subset of the shared government network. This hardware firewall was not in effect at the time of the audit, and it provides redundancy restrictions to allow protection in the event of a failure. The third level of security is the user ID and password, which is required to gain access to the system's database.

*Continuity Planning*

Another line of questioning related to the capacity of the CAS to regenerate in the event of a major natural disaster or terrorist attack. A government official explained that there are three components to the government's business continuation plan. The first is a mainframe hot-site recovery, which tests the government's ability to regenerate the mainframe environment at workplace technology services. The second component is a disaster recovery plan, in which the Oracle Financials environment is brought up at an alternate site. Finally, the government conducts an annual "tabletop exercise," where a surprise scenario is handled in a role-playing fashion, and then discussed.

### E-procurement Process

Finally, the PAC Chair asked for clarification on the steps taken to address the concerns raised in the Part 2 audit report (p. 74) regarding the e-procurement approval process — namely, the potential of delivery of goods to an unauthorized location; potential redirection of cheques to a fraudulent mailing address; and potential procurement from inappropriate suppliers. After receiving an explanation of the existing procedures from the director of the OCG financial management branch, the Chair inquired whether there was a way to electronically require compliance with procurement rules. The executive director of corporate accounting services explained that the system has the ability — and the users are required — to record the method of procurement.

## Committee Recommendation

The Public Accounts Committee endorses the 14 recommendations contained in the Office of the Auditor General's 3rd Report of 2005/06, *Audit of the Government's Corporate Accounting System: Part 1,* and the 52 recommendations in the 5th Report for 2006/07, *Audit of Government's Corporate Accounting System: Part 2,* and recommends the same to the Legislative Assembly. The Committee also recognizes the efforts that the government has made in addressing these recommendations and agrees that no further action needs to be taken at this time.

# AUDITOR GENERAL REPORT NO. 4, 2005/2006:
## PROVINCE OF BRITISH COLUMBIA AUDIT COMMITTEES: DOING THE RIGHT THINGS

The Public Accounts Committee met on March 5, 2007 to consider the acting Auditor General's report on audit committee practices for government organizations in British Columbia. The Committee heard presentations by the Office of the Auditor General (OAG) and the Ministry of Labour and Citizens' Services.

### SUMMARY OF OAG REPORT

The report summarizes the results of the first audit conducted by the OAG under section 10(8) of the *Auditor General Act*. This section is designed to provide the Public Accounts Committee "with an assessment of the financial statement audit process" of the province. In British Columbia, the financial statements of a large number of government organizations (other than ministries) are subject to their own independent audit process, with OAG or private sector auditors reporting to the audit committees of these entities.

The audit had two objectives: to provide an overview of the health of the financial statement audit process by assessing audit committee practices, and to inform the OAG's future financial statement audit coverage plans for organizations within the government reporting entity.

The audit team examined audit committee practices in place within 33 organizations that represented "a good cross-section" of government, including Crown corporations, as well as school districts, universities, colleges, and health authorities (the SUCH sector).

The assessment criteria were developed by the audit team from two sources: the CICA requirements for listed companies in Canada, and the corporate governance guidelines for BC government organizations, issued by the board resourcing and development office (BRDO) of the Ministry of Labour and Citizens' Services in 2005. The audit did not assess the effectiveness of individual audit committees or their members.

The OAG report contains the audit's key findings. The first finding is that overall, the audit committees discharged their duties well in relation to their oversight of the external audit process. While good practices were also found in other areas of audit committee responsibility, the audit identified several opportunities for improvement, including: frequency of meetings; audit committee membership and independence; review of financial and reporting systems; oversight of internal audit function; and whistle-blower policies.

To strengthen audit committee practices, and therefore the structure of governance across the provincial public sector, the OAG report recommends that:

1. Consistent with their intended evolutionary nature, the BRDO governance guidelines for government organizations be revised to fully incorporate current best practice for audit committees; and
2. Compliance with these guidelines be required of all government organizations in the government reporting entity, including the SUCH sector. (Currently the guidelines are not mandatory and do not apply to school boards).

## Summary of Government's Response

The Deputy Minister of Labour and Citizens' Services presented the government's response. She began her presentation by explaining to the Committee that both her ministry and the Crown agency secretariat in the Ministry of Finance are involved in providing corporate support for Crown agency governance. The DM then informed the Committee that the BRDO corporate governance guidelines have been very well received across Canada since their release in February 2005. The guidelines' audit committee section was also reviewed favourably by the OAG at that time and reflected the best-practice standards of the day.

Turning to the audit's findings, the DM stated that government is pleased to learn that audit committees were discharging their oversight duties well in relation to the external audit process. The findings of good practice with regard to other areas of audit committee responsibility also provide some assurance to government, and the opportunities for improvement, identified in the OAG report, will provide very useful guidance for future Crown agency board development.

With regard to the OAG report's first recommendation, the DM stated that government is committed to keeping pace with emerging best practices and will review and update the BRDO guidelines in response to new developments in the art of good governance. The inclusion of whistle-blower policies, for example, will be considered in the revisions.

Government, though, has a different interpretation of best practice regarding the appointment of senior public servants from ministries to the board or a committee of a Crown agency. It disagrees with the audit team's claim that such appointments create "irreconcilable independence issues," finding no explanation for this perspective in either the best-practice literature or the OAG report.

The DM also indicated that government will consider implementing the report's second recommendation to expand the application of the governance guidelines beyond its priority targets (Crown corporations, health authorities, colleges and universities) to all government organizations. However, to extend the guidelines to school boards and smaller organizations within the government reporting entity would be a very resource-intensive process since this involves 100-plus organizations with limited capacity.

## Committee Inquiry

After hearing from the witnesses, the committee inquiry focused on the following topics: the question of independence of audit committee members, and the feasibility of implementing the recommendations. Members also asked for clarification on specific topics in the OAG report: the proposed inclusion of whistle-blower policies in the revised guidelines (p. 34), and the Interior Health Authority's policies and procedures for review and approval of the CEO's expenses (p. 65).

### Audit Committee Independence

One theme the Committee focused on was the disagreement between government and the OAG audit team on the independence question posed by the presence of senior public servants on audit committees. The acting Auditor General was asked to elaborate on his office's position. He reiterated the view, as stated in the report, that best practice calls for audit committee members to be truly independent from government. In other words, the OAG believes that the best governance comes from a fully functioning audit committee that is made up of all independent members who are there for their professional expertise, without any possible perception of direct conflict.

In response to a follow-up question, another OAG witness confirmed that the audit team had found no specific instances where the presence of a senior public servant from a sponsoring ministry had affected an audit committee's decisions. However, the practice was not consistent with the high-level definition of independence, cited on page 28 of the report, adding that the practice may be unique to the public sector.

In her response, the DM explained that in general terms, when senior public servants are asked to participate on audit committees, the appointments are made based on the knowledge, skills and abilities of the individuals — rather than their affiliation with a sponsoring ministry. In these situations, government does not believe that there is any issue of independence.

On a related matter, the witnesses were asked how the practices of BC audit committees compare with those in other jurisdictions across Canada. The CEO of the Crown agency secretariat stated that while she could not attest to the exact composition of the audit committees in other jurisdictions, her sense was that the BC standards are higher.

Members also raised concerns about the potential for conflict of interest arising from the practice of appointing faculty or administrative personnel to audit committees in the post-secondary education sector, referred to on page 30 of the OAG report. At the meeting, the acting Auditor General reiterated the need for government to consider revising the guidelines to deal with this aspect of the independence question. In response, the DM indicated that the new version of the guidelines will start to bring post-secondary institutions more in alignment with governance best practice.

**Implementation Challenge**

Another theme of the committee inquiry related to the challenge of implementing the two recommendations of the OAG report. Some Members had concerns that a blanket endorsement would signify that the Committee was paying no regard to the legitimate concerns raised by the government witnesses, or capture the different points of view in a complex area. They raised the question of whether endorsement would also extend to the specific methods of implementation to achieve the desired outcomes. After discussing how best to incorporate these concerns, the Committee agreed to acknowledge them in the wording of its recommendation.

## COMMITTEE RECOMMENDATION

The Public Accounts Committee endorses the two recommendations of the Auditor General's 4th Report for 2005/06, *Province of British Columbia Audit Committees: Doing the Right Things,* and recommends the same to the Legislative Assembly. The Committee also notes that government has outlined where some exceptions may be necessary in addressing the recommendations and agrees that no further action needs to be taken at this time.

# AUDITOR GENERAL REPORT NO. 3, 2006/2007:

## TREATY NEGOTIATIONS IN BRITISH COLUMBIA: AN ASSESSMENT OF THE EFFECTIVENESS OF BRITISH COLUMBIA'S MANAGEMENT AND ADMINISTRATIVE PROCESSES

The Public Accounts Committee met on April 19, 2007 to consider the acting Auditor General's assessment of the province's management and administrative processes in treaty negotiations. The Committee heard presentations by the Office of the Auditor General (OAG) and the Ministry of Aboriginal Relations and Reconciliation.

### SUMMARY OF OAG REPORT

The report points out that using treaties to resolve First Nations' claims to land and resources is important to meet the goal of reconciliation and to provide long-term certainty. However, the negotiations in British Columbia have been expensive and time-consuming for the three parties involved. Since 1993, the governments of British Columbia and Canada have spent $260 million and $426 million respectively; and First Nations have borrowed $289 million from Ottawa.

The report of the audit by BC's acting Auditor General was issued concurrently with the report of the Auditor General of Canada's examination of the federal government's approach to managing its involvement in the BC treaty negotiation process. The reports contain the same foreword, and both audits were based on a common methodology.

The purpose of the BC audit was to assess whether the province has effective administrative and management processes and resources to negotiate treaties successfully with BC First Nations and Canada. The audit team considered the impact of other options to deal with aboriginal rights and title — court decisions, interim resource-sharing agreements and the new relationship policy — but it did not examine the negotiation-related activities of First Nations, or the overseeing British Columbia Treaty Commission.

The OAG report concludes that overall, the provincial government only has effective administrative and management processes and resources in place to successfully negotiate treaties for the few First Nations at the "breakthrough tables" — the small number of treaty tables that the government believes are the most likely to be successful. As a result, of the 57 First Nations participating in the process, only three tables were close to signing at the time of the audit.

The report's key findings are that:

- Treaty negotiations have been slower than expected at the majority of treaty tables.
- Other options related to aboriginal rights and title could hamper the continuing interest of First Nations in the treaty process.
- Administration of the treaty process needs improvement, including better management of negotiation mandates and staff resources.
- Reporting to the Legislative Assembly on the status of treaty negotiations has been incomplete on the part of the ministry.

The OAG report's three recommendations are designed to improve the pace of treaty negotiations, administration of the process and accountability reporting to the Assembly.

## Summary of Government's Response

The Deputy Minister of Aboriginal Relations and Reconciliation presented government's response to the OAG report's key findings and recommendations. On the question of breakthrough tables, the witness clarified for the Committee that the province did not choose to proceed in this manner strictly as a result of a financial imperative. The government also pursued the strategy in the belief that success at the breakthrough tables would translate into success in other treaty negotiations.

Regarding the slow pace of the 40-plus negotiations occurring in the province, the DM explained that more BC First Nations are involved in the treaty process than was first contemplated, since many have organized along the lines of Indian bands rather than on the basis of historical tribal affiliations. Other factors affecting the pace and progress of negotiations include the electoral cycles of the three treaty partners, and changes in jurisprudence resulting from recent court decisions.

Turning to the work outside the treaty world, the DM explained that from the government's perspective, it is important to make a broad range of tools available for First Nations to access as they seek to reconcile their needs. In line with the first recommendation of the OAG report, the ministry is working with its First Nations' partners to better harmonize these tools.

To implement the second recommendation, the DM informed the Committee that the ministry is working closely with the First Nations Leadership Council to review the policies government brings to the treaty table and to make adjustments, as appropriate.

On the final recommendation, reporting on progress to the Legislative Assembly, the DM reported that the ministry is currently examining options to enhance the reporting on the progress made in treaty negotiations in its next service plan.

## Committee Inquiry

After hearing from the witnesses, the committee inquiry focused on the following topics: the impact of other options (economic, legal, and political) on the status of treaty negotiations; the future of the breakthrough-tables strategy and related costs; and the adequacy of information provision. Committee members also asked for clarification on the purpose and scope of the BC audit.

### Other Options

*Alternative Agreements*

One theme of the committee inquiry focused on the impact of the rising number of contractual agreements entered into with First Nations outside the treaty process. The impact of litigation was also raised by some Members in response to the following statement from the joint foreword of the OAG report: "Both audits noted that some court decisions now make litigation a more attractive option than negotiation." (p. viii)

After acknowledging the need for "side" agreements in certain cases, the acting Auditor General reiterated the audit team's concern that such agreements could be a disincentive and a drain on resources relative to other work that has to happen. For this reason, the report's first recommendation urged the ministry to work with other participants to ensure that these arrangements are in the broader context of treaty-making.

The question of consistency among the 130-plus forestry accords was also raised — in particular, whether the variations in benefits would encourage the province's First Nations to pursue the legal option of litigation to resolve questions of aboriginal title. In response, the DM explained that the

forestry agreements are designed to reflect the particular nature of the First Nation's interest in the level of resource exploitation within its own territory. This approach is in line with the direction given by the courts which ruled that a one-size-fits-all approach is inappropriate for interim, or treaty, agreements. Since interim measures build up confidence and trust over time, they pave the way for negotiation in support of the long-term goal of treaty-making.

The government's perspective on the value of alternative agreements was supported by some committee members who commented on the importance of having a range of capacity-building tools available for the province's First Nations.

*New Relationship Policy*

The witnesses were also asked about the impact of the province's new relationship policy, which enables First Nations to participate in decisions about land use and resources outside the treaty process. The question for the acting Auditor General related to whether the absence of a clear definition of the policy's implications for the treaty process accounts for some of the delay and frustration at the treaty tables. In his response, the acting Auditor General drew the Committee's attention again to the report's first recommendation urging the provincial government, in consultation with First Nations, to review and revise as appropriate its policy goals and approach to the treaty process and, in particular, harmonization with the new relationship.

Another question for the DM focused on what direction has been offered in terms of attempting to define the new relationship in a way that will assist treaty-making. In his response, the DM informed the Committee that each of the three negotiated agreements contain a provision stating that concluding a treaty does not preclude the First Nation from availing itself of initiatives that might flow from the new relationship policy.

In a follow-up question, the DM was asked how the ministry reconciles this provision with the treaty-making goal of legal finality. After clarifying that a treaty aims to deliver predictability and certainty about how resources and land can be used and accessed, the DM stated that there needs to be an opportunity for a treaty to evolve as circumstances change over time. He also agreed with one committee member's comment that the new relationship policy allows for incremental progress and is a way to build trust with First Nations in order to reconcile aboriginal rights with the interests of the Crown.

**Breakthrough Tables Strategy**

Another theme of the committee inquiry related to the future of the government's strategy of focusing on only a few lead tables. In response, the acting Auditor General explained that his report's second recommendation urges all the ministries involved in treaty negotiations to reassess the strategy so that those First Nations not at the original breakthrough tables are effectively involved in the process.

Some committee members also raised the question of whether it would have been more cost effective to have used the breakthrough-tables strategy from the beginning of the modern treaty process, as opposed to the original shot-gun approach. The acting Auditor General declined to speculate on this scenario.

Another question on negotiation funding related to the impact of federal loans. In response, the DM reported that debt is "a very real issue" for many First Nations as the negotiation process extends and federal loans have to be secured to enable their participation. Furthermore, there is a legitimate concern and risk that at some point the debt load may call into jeopardy the utility of the negotiations.

### Information Provision

Regarding the need for more accountability reporting on the status of treaty negotiations, committee members asked the OAG and ministry witnesses if they have discussed how to make reporting more regular and useful to MLAs and the public. In his response, the acting Auditor General acknowledged that some of the detailed information on negotiations must be protected but suggested that legislators could benefit from more 'robust' reporting on the status of negotiations. The DM added that the ministry is considering this issue, and would be happy to discuss it further with the OAG.

## COMMITTEE DECISION

The Public Accounts Committee accepts the three recommendations of the Auditor General's 3rd report for 2006/07, *Treaty Negotiations in British Columbia*, and at the same time recognizes the progress made by the ministry to date.

# AUDITOR GENERAL REPORT NO. 6, 2006/2007:
## MONITORING GOVERNMENT'S FINANCES

The Committee met on May 3, 2007 to consider the acting Auditor General's annual report on the state of the provincial government's finances. It heard presentations by the Office of the Auditor General (OAG) and the Ministry of Finance.

### SUMMARY OF OAG REPORT

The OAG report is the fifth in a series the topic of government's finances. It is designed as a companion document to the report produced annually on the public accounts, which is reviewed in the next section.

The purpose of the fifth annual report is to assist legislators and the public better assess the financial position and performance of government. It makes note of important financial trends and events that help answer the simple question, "how are we doing?"

The report acknowledges that government has made a number of improvements since last year in the comprehensive financial statement discussion and analysis (FSD&A) section of the 2005/06 *Public Accounts*, and that it has also expanded its analysis in the annual *British Columbia Financial and Economic Review* published by the Ministry of Finance.

Part 1 contains, for the first time, a ten-year financial trend analysis framework. The detailed framework, covering fiscal 1997 to 2006, provides financial information on revenue and expense trends, assets and liability trends, and surplus/deficit trends, based on the audited summary financial statements. The 2005/06 data shows another year of strong results. Part 1 also contains a new separate section on government business enterprises to reflect how these entities are consolidated under generally accepted accounting principles (GAAP).

Part 2 compares BC's financial condition with other Canadian jurisdictions, by looking at changes in three indicators over the past ten years — GDP per capita, net liability to GDP, and credit rating. These financial indicators were developed by the Canadian Institute of Chartered Accountants (CICA) to measure sustainability, flexibility and vulnerability.

To further strengthen the annual FSD&A section of the public accounts, the report recommends that government:

1. Present a long-term trend analysis in the FSD&A to provide more context for discussing government's financial performance
2. Expand its FSD&A discussion of material financial risks and uncertainties and the challenges involved in their ongoing management
3. Include all relevant CICA indicators of financial condition in the FSD&A. shown over an extended period, to supplement the existing discussion and analysis
4. Adopt the CICA-recommended measure of "government-to-government transfers to own-source revenue" for use in the FSD&A.

## Summary of Government's Response

The Deputy Minister of Finance presented the government's response. She informed the Committee that the OAG report is "a fairly positive one" for government and reflects the fact that the province has made significant progress in financial reporting.

Regarding the first recommendation, presenting a long-term trend analysis in the FSD&A, the Deputy Minister stated that the ministry plans to increase audited trend analysis to four years in the 2006/07 public accounts, a time frame that includes all the fiscal years since fully adopting GAAP (in 2003/04). Additional years will be added as information becomes available and is audited by the OAG. Since there is a lack of fully audited historical data, the ministry prefers to rely on the "apples-to-apples" comparison of audited data based on GAAP-compliant financial statements.

On the second recommendation, the ministry intends to expand the disclosure of material financial risks and uncertainties in the 2006/07 public accounts. This expanded disclosure will be consistent with the disclosure of risks and uncertainties included in the budget.

Concerning recommendation 3, the Committee learned that the ministry is continuing to monitor the OAG request regarding the inclusion of all relevant CICA indicators of financial condition in the FSD&A. The Deputy Minister pointed out that this information is currently available in the annual *Financial and Economic Review*. Within the public accounts, the ministry's overall concern is readability – adding the new accounting standards would add a level of complexity to the financial statements that would make them less accessible to the average reader.

The Deputy Minister also indicated that government was reluctant to implement the final recommendation, which relates to revenue from the federal government received by the province. She stated that the ministry believes the current measure — "government-to-government transfers to total revenue" — is more readily understandable to the average user of the public accounts than the CICA-recommended measure of "transfers to own-source revenue," which only one jurisdiction uses (Manitoba).

## Committee Inquiry

After hearing from the witnesses, the committee inquiry focused on the following topics: the length of the timeframe for trend analysis; the extent of risk disclosure; and the inclusion of CICA financial indicators. Individual committee members also asked for clarification on other GAAP-compliant jurisdictions in Canada, and the definition of the GDP-per-capita indicator in Exhibit 17 (OAG Report, p. 42).

### Trend Analysis Timeframe

Committee members questioned the government's rationale for not presenting audited trend analysis for the recommended ten years in the public accounts. One suggested that a longer timeframe would not pose any problem since "all accounting is estimation." Another asked the acting Auditor General whether he was satisfied with the government's response to the first recommendation. In his reply, the acting Auditor General explained that the OAG has a database dating back ten years that the office feels very comfortable using as part of the public accounts, going forward.

### Risk Disclosure

Members expressed support for the second recommendation on the grounds that fuller disclosure of the risks and uncertainties underlying the financial statements is important for financial accountability. Their endorsement prompted the acting Auditor General to contrast the very brief statement of risk in the BC public accounts with the government of Canada's public accounts, where two pages are devoted to risk.

### CICA Financial Indicators

Regarding recommendation 3, Members stated that the inclusion of more indicators in the FSD&A took priority over the ministry's concern about readability of the public accounts and made some practical suggestions to incorporate them — such as including additional information in the appendices, or listing source documents as hyperlinks in the public accounts. The acting Auditor General responded by stating that one of the cardinal rules of financial reporting is that the financial statements are complete and fully disclosed — in other words, everything that is relevant is there in terms of explaining the results.

Also discussed was the question of how best to track the risk associated with transfers made by the federal government to the province. In other words, should the province use the recommended CICA measure of own-source revenue, or the existing total-revenue measure? After seeking clarification from the witnesses, committee members accepted the ministry's "very commonsensical" argument for retaining the total-revenue measure — namely, that the overall risk to the government's revenue of the volatility of the transfer is the percentage that it makes up of the overall revenue, not some discounted amount.

## Committee Recommendation

The Public Accounts Committee endorses the four recommendations of the Office of the Auditor General's 6th Report of 2006/07, *Monitoring Government's Finances,* and recommends the same to the Legislative Assembly. The Committee also recognizes the efforts the government has made in addressing these recommendations and agrees that no further action needs to be taken at this time.

# AUDITOR GENERAL REPORT NO. 9, 2006/2007:
## SEEKING BEST PRACTICES IN FINANCIAL REPORTING: REPORT ON THE PROVINCE'S 2005/2006 PUBLIC ACCOUNTS

The Public Accounts Committee met on May 3, 2007 to consider the Deputy Auditor General's report on the government's financial statement and reporting practices, arising from the audit of the Summary Financial Statements for 2005/06. The Committee heard presentations by the Office of the Auditor General (OAG) and the Ministry of Finance.

### SUMMARY OF OAG REPORT

Each year the OAG is required to audit the government's Summary Financial Statements, which are included in the province's *Public Accounts* of the province. In addition to providing an audit opinion on these statements, the OAG reports annually on progress made in government's accounting and reporting practices.

The purpose of the OAG report on the *2005/06 Public Accounts* is to help legislators and the public understand the improvements being made to government's financial reporting and to be aware of key issues that may impact future reporting.

The report's overall conclusion acknowledges the progress government has made over the years towards achieving best practices in financial accounting and reporting. For example, the audit team found that the financial statement discussion and analysis section of the public accounts is more comprehensive than in previous years, and that a number of improvements have also been made in disclosure of interest expense and investments.

The report discusses upcoming changes in accounting standards, and what this may mean for how government reports on its financial performance. It also identifies other matters related to the Summary Financial Statements including: the need for continual monitoring of the government reporting entity's boundaries, and the accounting challenges posed by public-private partnerships (P3s) and collective bargaining agreement incentives.

The OAG report contains ten recommendations for further improving government's financial accounting and reporting, which relate to:

- Providing fuller disclosure on the nature of contractual obligations (recommendations 1, 2);
- Improving disclosure of contingent liabilities (recommendation 3);
- Reviewing the policy on accounting for resource roads (recommendation 4);
- Providing fuller disclosure on pension plans (recommendation 5);
- Providing fuller disclosure on post-employment benefits (recommendation 6);
- Reviewing the policy on capitalization of interest during construction (recommendation 7);
- Disclosing the complete Olympic Games commitments (recommendation 8);
- Requiring reports on controls for significant service organizations (recommendations 9, 10).

## Summary of Government's Response

The Deputy Minister (DM) of Finance presented the government's response to the OAG report. She indicated that the ministry appreciated the recognition of its leadership role in the area of financial reporting. She also reported that the ministry was working consultatively with the OAG to address evolving issues.

In terms of the report's first two recommendations, dealing with fuller disclosure of contractual obligations, the DM informed the Committee that the ministry agrees that more detailed contractual reports need to be done. For this reason, the government will disclose the contractual obligations of self-supported Crown agencies in a separate section of the 2006/07 public accounts.

The DM then indicated that the government disagrees with the report's third recommendation, to improve disclosure of the value of contingent liabilities. Therefore the ministry plans to continue the historic practice of taking the advice of the Ministry of the Attorney General with respect to the likelihood of liability. She noted that this practice is consistent with the standards required under GAAP, in terms of summary financial statement disclosure.

In response to the fourth recommendation, the DM reported that government was reviewing with the OAG the policy on accounting for resource roads. Regarding recommendations Nos. 5 and 6, the ministry will provide fuller disclosure on pension plans and post-employment benefits in the 2006/07 public accounts.

On the next recommendation, to review the policy on capitalization of interest during construction, the DM stated that government is continuing to work with the OAG on how best to reflect this item — not only for alternative and P3 financing arrangements but also for the education and health sectors. She anticipated that the changes in presentation will likely be incorporated into the 2006/07 and 2007/08 public accounts.

In regard to recommendation 8, the DM informed the Committee that the government believes it fully discloses both the direct and indirect costs of the Olympics in a variety of places, and therefore disagrees with the OAG recommendation that all those costs be disclosed in a single note to the financial statements.

Responding to the final two recommendations, requiring reports on the controls for alternative service delivery contracts, the DM agreed that such standards would be useful in the future, but difficult to put in place for existing contracts.

## Committee Inquiry

After hearing from the witnesses, the committee inquiry focused on the following topics: the challenge of accounting for P3 arrangements; and the question of disclosure of Games-related costs. One committee member also asked for clarification on the presentation of contractual obligations relating to service delivery agreements (note 25(d), Appendix D, p. 60).

### Accounting for P3s

One theme of the committee inquiry related to the challenge of determining the cost of an asset in P3 arrangements. Referring to the finding in the OAG report (p. 50) that only a few P3 agreements distinguish between the costs for the construction of the asset and the maintenance costs, one Member asked the acting Auditor General what treatment he would recommend to resolve this problem of determining the cost of an asset within existing contracts.

In response, the acting Auditor General referred to the Sea to Sky Highway project as an illustration of where the payments for capital were not clearly distinguished from the payments for highway maintenance, adding that the accounting now reflects the capital portion properly. His office's view is that when entering such agreements, a clearer separation of the maintenance costs from the capital portion would ensure the best accounting practice.

In a follow-up question, the Member asked whether the OAG has considered advising Partnerships BC on how future contracts might be constructed so as to enable the public to answer the very basic question — what is the value of the asset, and what is the value of the maintenance contract? The acting Auditor General referred this question to the DM. Regarding the Sea to Sky Highway project, she explained that there has been disagreement over how to infer which part of the net present value of the asset ($1.9 billion) relates to the capital asset and which relates to maintenance. The DM then stated that the government is working with Partnerships BC to set clear standards in the contract that allow the correct accounting treatment, while not eroding the risk transfer and asset value over the life of a P3. She expects these standards to be in place for future P3s.

**Disclosure of Games-related Costs**

Another focus of the committee inquiry related to the recommendation for complete disclosure of the Olympic Games commitments. One Member referred to the statement in the Finance ministry handout suggesting that "the annual reports of the Auditor General and VANOC are a more appropriate forum for detailed reporting." (p. 8) He then asked the DM to explain why government does not consider it a best practice in financial reporting to have all games-related costs included in one place in the public accounts.

The DM responded that the government has taken steps to disclose its costs with respect to the Olympics; however, it would be misleading to separate out the amount of money that is actually spent by the BC Secretariat, which is fully disclosed in the Ministry of Economic Development's financial statements. To maintain a consistent reporting format, the government reports all the indirect Olympic costs under the cost centres in which they originate.

Subsequently, the acting Auditor General clarified why the audit team wanted additional disclosure. While there was no question that the Olympic expenses to date have been properly accounted for, the OAG is seeking to provide readers of financial statements with a full set of information regarding the potential commitment that the province may face as a result of the Games.

## COMMITTEE RECOMMENDATION

The Public Accounts Committee endorses the ten recommendations of the Office of the Auditor General's 9th Report of 2006/07, *Seeking Best Practices in Financial Reporting: Report on the Province's 2005/2006 Public Accounts,* and recommends the same to the Legislative Assembly. The Committee also notes that government has outlined where some exceptions may be necessary in addressing the recommendations and agrees that no further action needs to be taken at this time.

# AUDITOR GENERAL REPORT NO. 7, 2006/2007:
## GOVERNMENT'S POST-SECONDARY EXPANSION – 25,000 SEATS BY 2010

The Public Accounts Committee met on May 31, 2007 to consider the acting Auditor General's report on the government's post-secondary expansion project. The Committee heard presentations from the Office of the Auditor General (OAG) and the Ministry of Advanced Education.

### SUMMARY OF OAG REPORT

The report points out that the government's commitment to create 25,000 new public post-secondary seats between 2004 and 2010 is a significant undertaking that requires an investment of $1 billion ($800 million in building construction and $200 million in education service delivery).

The purpose of the audit undertaken by the acting Auditor General was to assess whether the Ministry of Advanced Education and a selection of post-secondary institutions are increasing access to post-secondary education in a manner that is consistent with good business management and with government's vision for post-secondary education.

The scope of the audit focused on the role of the Ministry of Advanced Education as leader and manager of the initiative, and on the role of post-secondary institutions as "implementers." The seven institutions selected as a sample were allocated 58 percent of the 25,000 new post-secondary seats. The audit team looked at activities undertaken in the first two fiscal years of the initiative: 2004/05 and 2005/06.

The OAG report concludes that overall, the ministry and the seven "implementers" are managing the 25,000-seat expansion project in keeping with principles of good business practice. However, since just over half of the student seats planned for in the first two years have been delivered, a few critical areas need to be addressed to ensure success.

The OAG report contains four key findings and makes six recommendations:

*The 25,000-seat initiative is currently behind schedule.*

1. The ministry and institutions should each introduce or strengthen formal risk identification and management practices across their organizations in order to support the successful achievement of results.
2. The ministry should lead and collaborate with all of BC's public post-secondary institutions to develop a coordinated response for remediating combined risk factors that contribute to softening post-secondary student enrolments.

*More effective and transparent allocation of the funds provided would help achieve the 25,000-seat growth objective.*

3. The ministry should fund public post-secondary institutions transparently, showing clearly how much funding is being provided to meet the 25,000-seat expansion plan and how much is covering inflationary pressures.
4. The ministry should establish a process to determine, and periodically review, the actual cost of delivering programs by institution, and then use this information to better inform its block funding decisions.

*Institutions are planning and managing for growth, but need better human resource succession plans.*

5. All institutions should develop human resource succession plans so that resource needs for the future are better identified and managed.

*Continual improvement in performance reporting on the expansion initiative would enhance transparency and accountability.*

6. The ministry should require that institutions present, in their service plan reports, growth targets and actual results over time and explain variances.

## Summary of Government's Response

The Deputy Minister of Advanced Education presented the government's response to the OAG report's six recommendations. On the topic of more formal risk management (recommendations 1 and 2), she informed the committee that the ministry will work with the institutions to review enrolment management and space challenges. The DM also reported that the ministry is now using a performance-based approach to FTE seat allocation, by removing growth funding from institutions not meeting their FTE targets and redirecting it to program areas where there is more demand.

Regarding the third recommendation, the need for more transparency in the allocation of funds, the DM stated that the ministry has added greater detail on the derivation of operating grants and FTE allocations in the 2007/08 budget letters. The ministry has also provided system-wide summaries showing the allocation of operating grants, FTEs and capital information for each institution.

The DM then informed the Committee that the level of scrutiny proposed in the report's fourth recommendation — a review of the actual costs of delivering programs at each institution — is not a prudent use of the ministry's resources. She indicated, though, that the ministry is looking at some modified block funding to balance the public policy goal of ensuring that a number of high-priority programs are delivered but still giving institutional flexibility and autonomy. As well, the ministry is developing terms of reference for a funding model review.

Regarding recommendation No. 5, the DM indicated that implementation of succession plans for faculty in post-secondary institutions will pose some challenges.

On the final recommendation, the DM reported that enhanced performance reporting will result from the change implemented by the ministry in 2007/08, permitting institutions to prepare one document combining the service plan and annual service plan report in order to show growth targets for the upcoming three years and results of the previous year.

## Committee Inquiry

After hearing from the witnesses, the committee inquiry focused on the following topics: the audit's focus on the costs of delivering programs, and the FTE counting methodology. Individual committee members also asked for clarification on how the ministry defines expansion and tracks the costs of instruction.

### Audit Focus

One theme of the committee inquiry focused on the question of whether the audit team's cost-oriented assessment of the 25,000-seat project might interfere with the autonomy of academic institutions to decide programming. One Member, for example, described the audit as "a very supply-driven examination, with a cost-preoccupied set of recommendations as well." Speaking as a former academic, he detected in the report a tendency to encourage a "top-down" approach to advanced education planning and a further concentration of decision-making that is in conflict with having responsive, demand-driven institutions.

In response, the acting Auditor General reiterated the purpose of the audit — to reflect on what the intent of the project was and the level of success. Rather than tackling systemic issues, the audit focused on whether BC taxpayers were getting value for money for the $1 billion investment in the 25,000-seat project. Recommending that more information be gathered by the ministry is not for the purpose of further centralizing decision-making. The intention is for the ministry, in setting policy, to be better informed regarding the cost structure of different institutions, the actual utilization of the seats, and the plans that are or are not underway with respect to the programs and the filling of faculty positions.

### FTE Count

Another topic of the committee inquiry focused on the different methods of counting FTEs. One Member pointed out a discrepancy between the number of new seats filled during the project's first two years in the OAG report (p. 7) and the Ministry of Advanced Education's presentation (slide 3) and asked for clarification. In response, ministry officials explained that the method of counting FTEs had changed in the third year of the project to better reflect the utilization across the whole system. The OAG report was based on the old reporting method, while the ministry's handout uses the new method that now includes students in continuing education programs.

Members also asked for clarification on when the target of 25,000 seats would be achieved. They learned from the DM that due to the unintended start-up lag, the ministry has revised its plan and set the completion date one year later to fiscal 2010/11.

## Committee Recommendation

The Public Accounts Committee endorses the six recommendations of the Auditor General's 7th Report for 2006/07, *Government's Post-secondary Expansion — 25,000 Seats by 2010*, and recommends the same to the Legislative Assembly.

# AUDITOR GENERAL REPORT NO. 8, 2006/2007:
## CHANGING COURSE – A NEW DIRECTION FOR BRITISH COLUMBIA'S COASTAL FERRY SYSTEM: A REVIEW OF THE TRANSFORMATION OF BC FERRIES

The Public Accounts Committee met on October 16, 2007 to consider the Deputy Auditor General's report on the new governance structure for coastal ferry services implemented by the provincial government in April 2003. The Committee heard presentations by the Office of the Auditor General (OAG) and the Ministry of Transportation.

### SUMMARY OF OAG REPORT

The report points out that the coastal ferry system is a critical part of BC's transportation system. In 2002, however, the provincial government's core review identified two significant problems facing BC Ferries: the inability of the board of directors to operate in a business-like manner, and the need for capital spending to replace the aging fleet and to upgrade terminal facilities.

To address these problems, in 2003, the province gave up operating and financial control of BC Ferries by transferring legal ownership of the British Columbia Ferry Corporation to the BC Ferry Authority, a new entity designed to be independent of government. No longer under government's control, the new company, BC Ferries Services Inc., provides coastal ferry services on a contract basis, under the regulation of the British Columbia Ferries Commissioner.

The changes to the corporate structure were brought about by the enactment of the *Coastal Ferry Act*. The reasons for this move were to resolve longstanding governance problems, and to create a coastal ferry system that would be sustainable into the future.

The OAG report points out that the purpose of the review was to assess whether government is likely to achieve its objectives for the province's ferry system through the new corporate structure, and how progress in meeting the objectives is monitored, measured and reported to government, the Legislative Assembly and the public.

The report focuses on the new governance structure for coastal ferry services implemented by the province in April 2003. It is based on information gathered between October 2004 and August 2006, through interviewing those involved in implementing the new structure and by reviewing relevant documents.

The report concludes that the new corporate structure has achieved government's primary objective of separating public policy decisions from business decisions. As a result, BC Ferries now has sufficient independence to replace aging ferries and other infrastructure in a business-like manner. At the same time, the increased independence carries a degree of risk since it is no longer answerable to government as owner. Instead, government must rely on other means to hold BC Ferries accountable, including the coastal ferry services contract and the BC Ferry Commissioner.

The report's key findings and three recommendations are:

*There are no criteria by which government can measure whether or not the new ferry structure is achieving the objectives of the Coastal Ferry Act.*

1. Government should establish criteria to evaluate how well the coastal ferry system is achieving the objectives of the transformation and conduct periodic evaluations of that performance, at least once in every performance term, in order to determine when or if changes to the *Coastal Ferry Act* should be made.

*The ferry service is administered by a collection of separate legal entities, each of which issues a report on its activities. There is no single report that covers all aspects of the ferry system.*

2. The Ministry of Transportation should issue, separately or as part of its annual service plan report, a comprehensive summary report on the coastal ferry system.

*The Coastal Ferry Services Contract requires government and BC Ferries to develop performance measures relating to the quality of service provided. This has not yet been done.*

3. The Ministry of Transportation and BC Ferries should develop performance measures relating to the quality of service, as required by the coastal ferry services contract.

## Summary of Government's Response

The Assistant Deputy Minister (ADM) for transportation policy and planning responded on behalf of the Ministry of Transportation. She began by stating that the OAG report accurately reflects steps the province has taken in setting a new direction for delivery of coastal ferry services.

Regarding the OAG report's first recommendation, the ADM reported that the ministry agrees that it is prudent to conduct periodic reviews of the new business model to evaluate how well the coastal ferry system is achieving the objectives of transformation, but neither a process nor a time line has yet been established.

Turning to the second recommendation, the ADM stated that the ministry believes that independent entities, such as BC Ferry Services Inc., are best positioned to report on their own activities on a timely basis. Also, the report issue dates for the company and the commissioner do not line up well with the ministry's annual reporting time lines. The ministry will provide links on its Internet site to facilitate access to the individual reports produced by the company, the Commissioner and the BC Ferry Authority. As well, the ministry is considering providing more information on ministry activities related to the coastal ferry services contract in the ministry's annual service plan report.

Regarding the third recommendation, the ADM noted that the ministry is already reporting on the quality of service in three areas: on-time performance, customer satisfaction and traffic congestion. Also, after discussions with the ministry, BC Ferries has added new performance measures in its 2006/07 annual report relating to employee safety, passenger safety, operational reliability and value for money (cost per passenger).

## Committee Inquiry

After hearing from the witnesses, the committee inquiry focused on the following topics: the extent of community input in the development of evaluation criteria and the format for reporting on the coastal ferry system. Individual committee members also sought clarification on government subsidy levels for non-major routes and the performance measures used by the former British Columbia Ferry Corporation in its public reporting.

### Community Input

Some committee members emphasized the importance of consulting ferry-dependent communities regarding the development of criteria for evaluating whether the transformation of the coastal ferry system is achieving government's objectives. They inquired whether the ministry plans to involve the ferry advisory committees (FACs) in the criteria-setting process.

In her response, the ADM explained that while the ministry has not yet considered using the FACs in that process, they would be "a good conduit" to consult on how to gather input from ferry users.

**Reporting Format**

Some committee members were critical of the ministry's decision not to produce a comprehensive summary report on the coastal ferry system. In her response, the ADM reiterated the logistical difficulties of obtaining up-to-date information when the separate entities have different time lines for reporting. She also ruled out the option of including the individual reports as an appendix in the ministry's annual service plan report, since this compilation would be "huge" and has never been done for any other service provider.

## COMMITTEE RECOMMENDATION

The Public Accounts Committee endorses the three recommendations of the Office of the Auditor General's 8th Report of 2006/07, *Changing Course – A New Direction for British Columbia's Coastal Ferry System: A Review of the Transformation of BC Ferries,* and recommends the same to the Legislative Assembly. The Committee also recognizes the efforts the government has made in addressing these recommendations and agrees that no further action needs to be taken at this time.

# AUDITOR GENERAL REPORT NO. 12, 2006/2007:
## SWITCHING TRACKS – A REVIEW OF THE BC RAIL INVESTMENT PARTNERSHIP

The Public Accounts Committee met on October 16, 2007 to consider the acting Auditor General's review of the BC Rail investment partnership. The Committee heard presentations from the Office of the Auditor General (OAG), the Ministry of Transportation and the British Columbia Railway Company.

### SUMMARY OF OAG REPORT

The report points out that a significant number of British Columbia's producers rely on rail transport to carry their products (lumber, coal and grain) to market. Much of these goods are carried by what used to be BC Rail, a railway operation wholly owned by the province through the British Columbia Railway Company (BCRC).

In 2004, the province entered into a partnership with Canadian National Railway Company (CN), whereby CN would take over the operations of BC Rail. As a result, the province effectively transferred most of its oversight responsibilities to federal agencies and ceased to be a regulator of rail transportation as well as a provider of rail services.

The BC Rail investment partnership consists of a transaction agreement, setting out the terms of the sale of BC Rail and most of its assets, other than the right of way and railbed assets (or railway line); and a revitalization agreement that leases these excluded assets to CN. In exchange, BCRC received $1 billion and numerous commitments from CN related to improving services and maintaining competition on BCRC's railway line, and providing growth opportunities and community benefits along that line. To address potential competition issues, BCRC, CN and the federal Commissioner of Competition signed a consent agreement which provides further interpretation of the service and rate commitments found in the transaction and revitalization agreements.

The report states that one purpose of the OAG review of the partnership was to examine government's level of regulatory oversight over CN's operations on BCRC's railway line. In particular, it sought to clarify the respective roles and responsibilities of the province, BCRC and the federal agencies, the Competition Bureau and Canadian Transportation Agency.

The other purpose of the review was to determine whether an adequate process is in place to adequately monitor the performance of CN regarding its commitments under the BC Rail investment partnership. The review team posed four specific questions:

1. What are CN's commitments to the province and stakeholders under the partnership?
2. Who is monitoring CN to ensure that its commitments to the province and stakeholders are fulfilled?
3. What remedies are available should CN fail to meet its commitments?
4. Is CN fulfilling these commitments?

Regarding the first question, the report identifies CN's commitments as: one-time commitments under the transaction agreement, which are aimed at providing economic development opportunities to northern communities; and commitments that must be fulfilled to meet ongoing performance standards (improvements in service) under the revitalization agreement.

The report's second finding is that the province, through BC Rail, monitors the one-time commitments made by CN and the required environmental management of the lease property. Performance commitments are generally monitored and enforced by the federal agencies (Competition Bureau and the Canadian Transportation Agency).

The report's third finding is that if CN should fail to meet its commitments, the transaction and consent agreements contain dispute resolution remedies for connecting carriers. Initially, the service deficiencies are dealt with between the carrier and CN. If they can't come to an agreement, an arbitrator is appointed by the Canadian Transportation Agency, with the authority to make a binding decision.

Shippers are also protected in the form of financial penalties that can be assessed if CN cannot provide cars for them. In addition, if CN fails to meet the benchmark transit times, as set out in the consent agreement, it is required to pay a penalty into a trust fund held by the BC Rail. To date, over half a million dollars has been paid into that fund, and the money is used for upgrades to the railbed to improve reliability in transit times.

Industry stakeholders can seek remedies in a variety of ways as well — through the Canadian Transportation Agency with respect to rate and service complaints and through the Competition Bureau because it is responsible for monitoring and enforcing CN's performance commitments. No formal complaints, though, have been received by either agency by the OAG report issue date (March 2007).

Since performance commitments are enforceable under the lease, remedies for non-performance are available to BC Rail, in addition to those applied by the Competition Bureau. However, the Bureau is not required to notify BC Rail of any non-compliance.

The report's overall conclusion is that there is a generally adequate system in place to monitor CN's delivery on its commitments under the BC Rail investment partnership.

The report contains one recommendation relating to the monitoring of the consent agreement:

- BCRC, as a signatory to the Consent Agreement, request that the Competition Bureau provide BCRC with a copy of any notice of non-compliance at the time the notice is given to CN.

## Summary of Government Response

The Assistant Deputy Minister of Finance and Management Services in the Ministry of Transportation presented the government's response to the OAG report. She informed the Committee that the ministry is "very pleased" with the report since it accurately portrays the various agreements in place under the BC Rail investment partnership, the roles and responsibilities of the agencies involved, and the current status of the commitments. The ministry also agrees with the report's overall conclusion that an adequate system is in place to monitor CN's delivery on its commitments under the investment partnership.

Regarding the OAG report's recommendation, the ADM reported that the BCRC has requested that the Competition Bureau provide it with any notices of non-compliance that are issued to CN; however, to date, no notices have been received. The ADM added that BCRC does receive copies of quarterly transit time oversight reports from the Canada Transportation Agency, which the CTA prepares on behalf of the Competition Bureau.

## Committee Inquiry

After hearing from the witnesses, the committee inquiry focused on the transfer of oversight responsibilities, and the follow-up process of reporting of non-compliance commitments. Individual committee members also asked for clarification on the reference to commitments made by CN to provide rail services during the Olympic Games (Report, p. 43) and inquired if the OAG review examined the outcomes of commitments.

### Oversight Transfer

Some Members asked for an explanation of the statement on page 5 of the OAG report that the province had not initially anticipated that the sale of BC Rail would involve transferring much of the regulatory and oversight burden to federal agencies. The CEO of BCRC explained that at the start of the process, it was not known who the eventual winner of the bid would be. It could have stayed a provincially regulated entity if a class 1 national railway had not won the bidding process.

In response to a follow-up question, the witness confirmed that information about the regulatory environment was available to the province during the selection process.

### Non-compliance Reporting

The Chair inquired about the current relationship between the province and the federal regulator in terms of reporting on non-compliance along the lines recommended by the OAG report. In response, the CEO of BCRC confirmed that the federal Competition Bureau had been contacted directly six months ago and asked to notify BC Rail in writing of any non-compliance issues brought to its attention.

In a follow-up question, the Chair asked if the BC OAG has discussed with the Office of the Auditor General of Canada the possibility of simultaneously examining the Competition Bureau's performance relative to western Canada. The review team leader explained that there were no plans for a joint audit at the present time.

## Committee Recommendation

The Public Accounts Committee endorses the recommendation made in the Auditor General's 12th Report of 2006/07, *Switching Tracks: A Review of the BC Rail Investment Partnership*, and recommends the same to the Legislative Assembly.

# AUDITOR GENERAL'S FINANCIAL STATEMENT AUDIT COVERAGE PLAN FOR FISCAL YEARS 2008/2009 THROUGH 2010/2011

Section 10(6) of the *Auditor General Act* stipulates that the Auditor General must provide to a committee of the Legislative Assembly each year a plan for the appointment of auditors for government organizations and trust funds for the following three fiscal years. Section 10(9) requires this committee to approve the plan, including any amendments the committee makes before giving its approval. In addition, section 10(7)(d) requires committee approval for Auditor General appointments exceeding five consecutive fiscal years; and section 14 requires the Auditor General to obtain prior consent of the committee to accept or continue an appointment as auditor for an organization outside the government reporting entity.

Under the terms of reference, adopted by the House on March 1, 2007, the Public Accounts Committee was identified as the committee to review and approve the financial statement audit coverage plan, to sanction appointments beyond five years and to endorse audits outside the government reporting entity. The PAC reviewed the plan at the November 20, 2007 meeting, with staff from the Office of the Auditor General (OAG) in attendance.

## SUMMARY OF PROPOSED PLAN

The Assistant Auditor General, Financial Audit explained that the financial statement audit coverage plan is a subset of the office's overall financial plan and that it excludes the 19 ministries audited by the Auditor General. The detailed plan in Appendix A proposes three levels of audit involvement for 149 organizations within the government reporting entity.

The first level is low (limited) involvement, where there is no fieldwork and only selective review of other auditor files (108 organizations). The next level is moderate (oversight) involvement, where OAG auditors attend audit committee meetings and review other auditors' audit plans and year-end audit files (19 organizations). Finally, there is high (direct) involvement, where the audit is conducted directly either by OAG staff or via contracts with private sector accounting firms (22 organizations). Other considerations in determining appropriate levels of audit coverage include: a select sample of similar-type entities (e.g. health authorities); risk-based selection of dissimilar-type entities (e.g. Crown corporations); and the office's capacity to staff direct audits.

The Assistant Auditor General, Financial Audit also summarized the changes from the prior year plan presented to the Public Accounts Committee in December 2006. These changes are identified in Appendix B and include direct audit involvement with two new entities, the Fraser Region Interim Aboriginal Authority and the Vancouver Island Aboriginal Transition Authority; and increasing to or maintaining direct involvement with Community Living BC, BC Transit, BC Transmission Corporation and the Industry Training Authority.

The witness reported that since the proposed changes to audit coverage are "generally small and incremental," they will have only a negligible impact on the OAG budget if the current cost structure is maintained. However, two matters that have important implications for the office's budget, fee-for-service recoveries and staff compensation levels, will be discussed with the Select Standing Committee on Finance and Government Services.

The witness then asked the Public Accounts Committee to endorse the Auditor General's four recommendations listed on page 2 of the plan:

1. Approve the Financial Statement Audit Coverage Plan for the fiscal years 2008/09 through 2010/2011, as shown in Appendix A (see pages 13-20)
2. Consent to the Auditor General continuing as the appointed auditor for 15 government organizations and trust funds, where the engagement term exceeds five consecutive fiscal years (see pages 7-9)
3. Consent to the Auditor General being appointed auditor for two organizations outside the government reporting entity, WorkSafeBC and the Provincial Employees Community Services Fund (see page 11)
4. Endorse the Auditor General's continued administration of the auditor appointment process, as described in the plan (see pages 11-12)

## Committee Review

Some committee members voiced concerns regarding the planned levels of audit involvement for certain organizations. One questioned the low involvement with the BC Arts Council and learned that the Council does not meet the "materiality" threshold for moderate involvement (revenues or expenses of $150 million). Another asked why the office was planning only low audit involvement for the Fraser, Interior and Northern health authorities. She was informed that the office assumes the six health authorities have similar risks and so selects only a few for oversight or direct audit.

Another line of inquiry related to the methodology used by the OAG in selecting school districts for audit coverage and the particular situation in the Richmond school district. The Committee was informed that the office picks a representative sample of the largest school districts to do direct audit work, and a rotation process is used for oversight audits of the medium-sized or smaller districts. In the Richmond case, the first full cycle using a contractor was finished last year and the auditor appointment process went very smoothly.

In a follow-up question, the witness was asked whether consideration was given to risk assessment, in addition to size or "materiality," in determining whether to audit a school district. He reported that the office regards school districts as essentially homogeneous entities as they all have the same financial statements and generally the same financial risks.

Clarification was also sought as to why the office was planning to increase the level of audit involvement for BC Transit from oversight to direct. The Committee was informed that the decision to use OAG staff during the 2010 and 2011 fiscal years was made as a result of discussions with the Crown's board and management who indicated that they may be receiving additional funding due to their involvement in greening the province.

Questions were also asked about the extent of the office's involvement with organizations outside the government reporting entity — in particular, with the BC Safety Authority and the Private Career Training Institutions Agency of BC, and certain trust funds. Members learned that the OAG has looked at these organizations and agrees with government that they are outside the reporting entity.

Finally, the question of the validity of the five-year term for audit engagements, specified in the *Auditor General Act*, was discussed briefly with the new Auditor General.

## Committee Decision

The Public Accounts Committee approved the four recommendations, listed above and on page 2 of the plan, as required by sections 10 and 14 of the *Auditor General Act*.

# AUDITOR GENERAL REPORT NO. 2, 2007/2008:
## THE CHILD AND YOUTH MENTAL HEALTH PLAN: A PROMISING START TO MEETING AN URGENT NEED

The Public Accounts Committee met on November 20, 2007 to consider the acting Auditor General's report on the province's first child and youth mental health plan. The Committee heard presentations from the Office of the Auditor General (OAG) and the Ministry of Children and Family Development (MCFD).

### SUMMARY OF OAG REPORT

The report points out that 15 percent of children and youth in British Columbia are affected by mental disorders, which, if left untreated, have a high societal cost. In 1999, the MCFD, supported by the health ministry, embarked on a consultation and planning process that resulted in the province's first plan to improve the mental health outcomes of children and youth.

The child and youth mental health (CYMH) plan was published in February 2003, and its implementation period covers the five years from April 1, 2003 to March 31, 2008. In the first two years, the focus was primarily on improving performance in the system (e.g. evidence-based treatments). Phase 2 (from April 1, 2005 to March 31, 2008) involves strengthening the capacity of the system (e.g. increasing clinical staff) to reduce the need.

The report points out that the purpose of the audit was to assess the adequacy of the plan and how well it is being implemented. Specifically, it sought answers to four questions:

- Is the ministry's plan adequate for improving the mental health outcomes of children and youth?
- Is the ministry choosing appropriate key initiatives to implement the plan?
- Is the ministry adequately implementing its key initiatives?
- Is the ministry providing adequate accountability information about the plan's implementation?

The audit team conducted the fieldwork between September and November 2006. Its work focused on the processes used by the MCFD to develop and implement the plan, but not the plan outcomes since as key parts of the plan are still being implemented.

The report's overall conclusion is that the ministry has developed an adequate plan for improving the mental health outcomes of children and youth, has chosen appropriate initiatives to implement the plan and is adequately putting them into effect. The CYMH plan is a "promising start," but improvements can be made.

The report contains five recommendations:

1. We recommend that the ministry ensure that clinical staff clearly understands the ministry's policy on treating patients with both a mental disorder and a developmental or learning disorder to ensure a consistent approach across the province.

2. As the ministry finalizes its organizational changes, we recommend that it:
    (a) ensure that adequate accountability mechanisms continue to exist between the ministry's regional operations and the provincial office so that plan objectives remain a priority, at least during the final year of implementation;
    (b) ensure that there continues to be strong leadership for child and youth mental health services;
    (c) address stakeholder concerns about the reorganization; and
    (d) begin formulating new strategies that will build on the accomplishments achieved under the province's first CYMH plan.
3. We recommend that the ministry develop a clear strategy to bring about meaningful inter-sectoral collaboration, particularly with physicians.
4. We recommend that the ministry improve implementation of three initiatives:
    (a) evidence-based treatments;
    (b) the school-based anxiety prevention program, Friends; and
    (c) the computerized clinical intake screening tool (known as the brief child and family phone interview).
5. To improve accountability for the CYMH plan, we recommend that the ministry:
    (a) report to the Legislative Assembly and the public on the plan's implementation progress; and
    (b) develop an approved accountability framework capable of evaluating the plan's impact on patient outcomes.

## Summary of Government's Response

The ADM for Integrated Policy and Legislation and the Director of Child and Youth Mental Health Policy presented the MCFD response to the OAG Report. After expressing the ministry's appreciation for the audit, the ADM described the report as "a fairly complete summary" of progress made to date under the five-year CYMH plan.

Next, the ADM reported that service enhancements have been made in all regions, by developing a basic level and range of core services in every region, which are available through MCFD offices, community partners and the school-based Friends program. Building on the "promising start," the ministry is about to start a review of current CYMH services to look at accomplishments, gaps in service and next steps. The latter are likely to feature continued improvement to the CYMH network, continued attention to needs of aboriginal communities for enhanced services and suicide prevention strategies.

The Director of Child and Youth Mental Health Policy then presented the ministry's response to date to each of the OAG report's recommendations. For dual-diagnosis patients, she explained that the ministry is developing curriculum for CYMH staff training to improve capacity and services for dual-diagnosis patients, and that the training will commence in the spring of 2008.

Regarding reorganization issues, the Director reported that the ministry is currently developing a new quality assurance framework that will specifically include outcomes for children and youth receiving mental health services. Also, leadership for child and youth mental health within the

ministry continues to be a priority. Stakeholder concerns re organizational changes are being addressed and the upcoming review will include a community consultation process.

Turning to the third recommendation, the witness informed the Committee that collaboration with physicians is being accomplished via the dissemination of self-help resources through the College of Family Physicians of BC; physician input on ministry-sponsored expert advisory tables and training initiatives; and ministry participation in a BCMA/government committee to develop clinical practice guidelines for general practitioners. The ministry is also discussing with the Ministry of Health ways of integrating CYMH into physician practice and primary health care initiatives.

To improve the implementation of the plan (recommendation 4), the ministry is promoting evidence-based training and practice for all CYMC clinicians. It is also expanding the school-based Friends program to clinical settings, and taking steps to mitigate the program's key risks and to establish mechanisms to monitor its penetration.

Finally, to comply with recommendation 5, the ministry is improving accountability for the CYMH plan. It submitted a report to Treasury Board in September 2006 and will complete a summary report for external stakeholders and the public by November 30, 2007. Also under development is an accountability framework to evaluate outcomes for children and youth. A logic model was approved in February 2006, and client outcome data will be collected when the new systems are fully implemented, including population-level mental health information through the Simon Fraser University monitoring project.

## Committee Inquiry

After hearing from the witnesses, the committee inquiry focused on the following topics: the existence of comparable plans, the timing of the MCFD review, the level of service provision for certain client groups, accountability reporting, and the scale of the problem. A committee member also asked about the recruitment challenge facing the ministry.

### Comparable Plans

Some committee members inquired whether there were any comparable child and youth mental health plans in other jurisdictions across Canada. The ADM reported that the scope of the consultation process and the five-year time frame of the BC plan made it the first of its kind in Canada. An OAG witness added that the BC plan was "an attraction point" for hiring new staff.

### MCFD Review

Another line of inquiry focused on the ministry's response to the report's second recommendation — specifically, the comment under 2(c) MCFD Reorganization stating that a systemic review of CYMH services is planned for the end of 2008 to examine accomplishments, gaps in services and next steps. Since this process may take three years to produce recommendations, one committee member suggested that seems "an awfully long time for a system that is in a bit of chaos because of reorganization."

The ADM clarified that the review of the CYMH plan could not formally begin until close to the completion date (March 31, 2008). He also reported that the ministry has already identified areas where more work needs to be done. In response to a follow-up question, he confirmed that agreement has been reached on a structure and co-leads for the upcoming review.

## Service Provision

*Aboriginal communities*

Re risk reduction activities, one Member asked why the hiring of aboriginal outreach workers in the Fraser Region did not begin until June 2007. In response, the ADM explained that the start date for hiring in the Fraser Region was consistent with the ministry's rollout of the CYMH plan, adding that the development of aboriginal services there is quite well along in the process, compared with other regions.

*Immigrant communities*

The provision of services for immigrant communities was also raised. The Director of Child and Youth Mental Health Policy stated that some of the regions have developed some targeted services and particular positions to address some of the needs of cultural groups, and that the ministry has also translated some of the materials to support people whose first language is not English; however, a great deal of additional work is needed.

*Youth*

Another concern raised by committee members was the situation of youth with mental disorders arising from early childhood sexual abuse. They asked whether the plan is addressing the problem of lengthy waitlists for counselling and therapy. In response, the ADM explained that the issues specific to the needs of children and youth who have experienced sexual abuse were not raised during the consultation process conducted in the development of the plan. The ministry is currently acting on the recommendations of a 2006 review of the child sexual-abuse intervention program and working to improve services offered by community mental health offices in that area.

## Accountability Reporting

*Reporting to Assembly*

Another theme of the committee inquiry focused on the OAG report's fifth recommendation, urging the MCFD to report to the Legislative Assembly. The Deputy Chair asked for the rationale behind this recommendation, pointing out that the ministry already reports through its service plan and annual service plan report, the estimates process and the Public Accounts Committee to the Legislative Assembly.

In response, the audit team leader explained that since it is a fairly innovative plan, with multi-sector participation, it is important to identify progress and accomplishments along the way. He also pointed out that none of the accountability avenues in place provides detailed reporting of what the plan is achieving and what the future looks like. In response, the ADM pointed out that another forum available to the ministry for reporting on the plan is the new Select Standing Committee on Children and Youth.

On a related topic, a committee member inquired about the timing of the ministry's summary report for external stakeholders and the public, which is to be released on November 30, the day after the fall sitting of the Legislative Assembly concludes. The ADM explained that a legislative sitting is not a factor affecting the release date of the summary report, which he expects to be completed within the next few weeks.

*Evaluation Framework*

The Chair asked whether the plan outcomes would be addressed in a follow-up audit. The audit team leader explained that a follow-up audit would be based on the recommendations made in the original report and would likely contain some information on the degree to which the ministry has been able to identify the outcomes and what these actually are.

Also raised was the question of how to measure improvement of mental health outcomes for youth. A committee member suggested that one criterion of success could be how well youth are prepared for the next stage, adulthood. He pointed out that this measure presupposes a continuum of services for young people who are still managing the concept of independence beyond "the magic age" of 19. So he asked the Auditor General if such a coordinated approach could be incorporated into future reports, and then the ministry what type of transitioning is made to ensure continuity of care.

The Auditor General explained that to date his office has not conducted any work to see where the service gaps are for youth once they reach 19, adding that this issue might be examined in the future.

The ADM reported that the MCFD, in collaboration with the Ministry of Health, and via the CYMH network committee, has developed some protocols to support improved transition from child and youth mental health services to adult services — a priority area for the ministry.

**Scale of Problem**

The final theme of the committee inquiry focused on the prevalence of mental health disorders among children and youth in BC. One member suggested that despite the ministry "aggressive, ambitious and even bold approach," the scale of the problem is so "dismaying" that it may be beyond the ability of government programs to resolve the broader societal issues. In response, the ADM suggested that the Legislative Assembly is the appropriate place to decide the balance of services to be provided. An audit team member then suggested that two relevant strategies in the existing CYMH plan, risk reduction and capacity-building, are helping to address the problem.

## Committee Recommendation

The Public Accounts Committee endorsed the five recommendations of the Office of the Auditor General's 2nd Report of 2007/08, *The Child and Youth Mental Health Plan: A Promising Start to Meeting an Urgent Need*, and recommends the same to the Legislative Assembly. The Committee also recognizes the efforts the government has made in addressing these recommendations and agrees that no further action needs to be taken at this time.

# AUDITOR GENERAL REPORT NO. 10, 2006/2007:
## FOLLOW-UP OF 2004/2005 REPORT 2: IN SICKNESS AND IN HEALTH: HEALTHY WORKPLACES FOR BRITISH COLUMBIA'S HEALTH CARE WORKERS

The Public Accounts Committee met on February 11, 2008 to consider the results of the follow-up work conducted by the Office of the Auditor General (OAG) regarding its June 2004 report on the province's health care work environment. The Committee heard presentations from the OAG and the Ministry of Health.

### SUMMARY OF OAG FOLLOW-UP REPORT

The Assistant Auditor General, Performance Audit informed the PAC that the purpose of the original audit was to determine how well the six health authorities were managing the workplace to ensure a healthy work environment for the province's health care workers. The June 2004 OAG report contained 15 recommendations directed at each health authority that were designed to enhance leadership, promote a healthy work environment for health care workers, and to improve monitoring and reporting on the health of employees. On November 22, 2004, the PAC reviewed the original report and endorsed all the recommendations.

The report on the follow-up audit regarding each health authority's progress in implementing the recommendations was issued in February 2007. The audit team found that overall, 59 percent of the recommendations had been fully or substantially implemented, and that some steps had been taken to implement the remaining 41 percent. The report concluded that the health authorities need to focus more attention on creating a healthy work environment for their employees.

### SUMMARY OF GOVERNMENT'S RESPONSE

The Chief Administrative Officer for the Ministry of Health presented the ministry's and the six health authorities' responses to the follow-up report. He reported that since the release of the report, the six health authorities have fully and/or substantially implemented all of the recommendations. There are also well-coordinated initiatives taking place across the health system — for example, the government letter of expectation to all health authorities addresses the recommendations regarding spans of control for managers in the system, and the provincial health human resources strategy council is addressing the recommendation regarding indicators of employee and workplace health.

### COMMITTEE INQUIRY

After hearing from the witnesses, committee members asked questions on a variety of topics: reporting to health authority boards, implementation timeline, service-plan indicators for workplace staff health, implementation challenges re extent of managers' control (recommendation 7) and indicators of employee and workplace health (recommendation 15), audit scope and timeline, data re on-site day care services, technology adoption and leverage procurement, and current status of implementation of recommendations by the Northern Health Authority.

### COMMITTEE DECISION

The Public Accounts Committee endorsed the overall conclusion of the OAG follow-up report that health authority leaders need to focus more attention on creating a healthy work environment for their employees, and also acknowledged the progress of the ministry and health authorities to date.

# AUDITOR GENERAL REPORT NO. 11, 2006/2007:
## INFECTION CONTROL: ESSENTIAL FOR A HEALTHY BRITISH COLUMBIA: THE PROVINCIAL OVERVIEW

The Public Accounts Committee met on February 11, 2008 to consider the acting Auditor General's seven-volume report on infection control. The committee inquiry focused on volume 1, which provides the provincial overview; the other six volumes contain a separate report for each health authority. The Committee heard presentations from the Office of the Auditor General (OAG), the Ministry of Health and the Provincial Health Services Authority.

## SUMMARY OF OAG REPORT, VOL. 1

The report points out that the costs of poor infection control can be significant for both individuals and the health care system as a whole. For example, the Vancouver Coastal Health Authority estimated that treating patients infected with the organisms, methicillan-resistant staphylococcus aureus and vancomycin-resistant enterococcus, cost over $24 million for the period 2000 to 2003.

The purpose of the audit was to assess whether the Ministry of Health and the Provincial Health Services Authority provide a framework for infection prevention, surveillance and control; and whether each health authority has a workable plan; demonstrates best practices; provides information system support; and reports on the status of its infection prevention, surveillance and control efforts. The audit examined four agencies in the Provincial Health Services Authority, and the fieldwork was carried out from July 2005 to February 2006.

The report's conclusions are that the Ministry of Health has not provided a comprehensive framework for infection prevention, surveillance and control across the continuum of care, and that no health authority in British Columbia has an effective or integrated system in place for infection prevention, surveillance and control across all service delivery responsibilities.

The report contains five key findings and six recommendations:

*The provincial framework is limited to public health.*

1. The Ministry of Health should establish and implement a provincial framework for infection prevention, surveillance and control, and establish provincial surveillance for hospital-acquired infections.

*There is no integrated planning across the continuum of care.*

2. Each health authority should develop an integrated plan and assess their current structure.

*Best practices are not consistently demonstrated.*

3. Each health authority should: work with others to establish a basic manual template, undertake a formal review of their staffing requirements; review their structure to ensure appropriate and designated medical support; ensure that renovations and new construction designs mitigate risks; ensure that all staff receive regular ongoing education and also provide medical staff access; ensure that the infection control team has adequate resources to maintain currency of practice; establish a formal surveillance program; and establish a process for regular practice monitoring.

*There is no integrated information system except for public health.*

4. The health authorities should: provide information management support for data collection, analysis and reporting; ensure there is staff with appropriate training to support data quality; and work with the Ministry of Health and others to ensure data quality.

*Reporting varies by health authority and overall is not well done.*

5. Each board of directors should determine what indicators they need measured and hold the medical advisory committees accountable.

6. The health authorities should: ensure that surveillance and audit reports are available and used; have senior management identify needed infection control reports and information; and ensure the issuance of an annual infection control report.

## Summary of Government's Response

The Chief Administrative Officer for the Ministry of Health began the presentation by acknowledging the "thoughtful, balanced and continuing work" of the OAG on the topic of infection control, as well as the efforts of the various groups of health care providers.

Next, the executive director of the new patient safety division outlined how the ministry is addressing the problem of hospital-acquired infections. To set the context, he identified several challenges facing the province: antibiotic-resistant organisms are increasing across North America; more and more virulent strains are emerging and new treatments are not keeping pace. There are also demographic pressures from an aging population with an increased chronic disease burden.

The executive director then explained that the provincial approach to infection control can be divided up into three layers. The ministry is responsible for providing strategic direction to the health authorities; the authorities are charged with the business of delivering health services within their respective jurisdictions; and at the health care facilities level, applied leadership is taking place.

The executive director then reported on steps taken to address the first recommendation, to ensure a provincially consistent approach to infection control in the province. In March 2007, the ministry created a patient safety division headed by an assistant deputy minister, the only portfolio of its type in Canada. Also, the development of a BC patient safety framework has reached the approval stage. System-wide leadership/coordination is being achieved via three initiatives — the BC patient safety task force (whose mandate ends later this year), the new BC patient safety and quality council, and the existing provincial infection control network (PICNet), which is involved in developing evidence-based improvement strategies, as well as education and professional development for staff.

The final witness, the vice-president of quality and safety at the Provincial Health Services Authority, then outlined a number of activities that are underway at the health authority level. For example, the BC patient safety task force, which he chairs, has undertaken an economic analysis of patient access to services.

## Committee Inquiry

After hearing from the witnesses, the inquiry focused on the following topics: the role of PICNet in infection surveillance, the use of infection surveillance and audit reports to improve practice, and the effectiveness of hand-washing campaigns. Individual committee members also asked about the medical challenge of antibiotic-resistant organisms; the direct-cost trend; the Fraser Health Authority infection control program; and follow-up action re the 2004 Surrey Memorial Hospital Report.

### PICNet

One theme of the committee inquiry focused on the role of the PICNet in promoting system-wide leadership and coordination. In response, the Auditor General agreed that the development of this network is a move in the right direction. Since infection control is such an important topic, though, he proposes to keep a very close watching brief on how all the recommendations in the OAG report are addressed by the Ministry of Health and the health authorities.

On a related topic, the government witnesses were asked whether the PICNet could facilitate the adoption of uniform standards to end the practices of using different manuals within the Fraser Health Authority and different software by hospitals within the Vancouver Health Authority. The executive director of patient safety reported that the network promulgates the surveillance-of-health care-associated-infections program to ensure that like information is gathered all across the province.

### Audit reports

Another theme focused on the use of audit reports to improve the infection management practices of health authorities. One committee member requested follow-up information on the frequency of residential facility audits undertaken by the Provincial Health Services Authority. The PAC Chair also suggested that the staffing situation in the Vancouver Island Health Authority can make it difficult for an audit report to result in an improvement in practice.

### Hand-washing campaigns

Members also inquired about the effectiveness of hand-washing campaigns within health care facilities and the accuracy of the claim that physicians are "the worst offenders." They learned from the executive director of patient safety that the Vancouver Island Health Authority is currently evaluating its campaign, and that the problem is not just limited to physicians. He also reported that the importance of hand washing as an infection control strategy is now part of medical education.

## COMMITTEE RECOMMENDATION

The Public Accounts Committee endorses the six recommendations of the Office of the Auditor General's 11th Report of 2006/07, *Infection Control: Essential for a Healthy British Columbia: The Provincial Overview*, and recommends the same to the Legislative Assembly. The Committee also acknowledges the ongoing progress of the ministry in addressing the recommendations.

## DOCUMENTS DISTRIBUTED

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Office of the Auditor General of Manitoba, *Enhancing Audit Committee Practices in the Public Sector*, October 2006

KPMG, *Canadian Audit Committee Update*, Fall 2006; *2005-06 Public Company Audit Committee Member Survey; Shaping the Canadian Audit Committee Agenda*

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### MAY 3, 2007

Office of the Auditor General of British Columbia, Presentation to the Select Standing Committee on Public Accounts Re Monitoring Government's Finances, May 3, 2007

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Ministry of Finance, Government Response to OAG Report Seeking Best Practices in Financial Reporting, May 3, 2007

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Ministry of Advanced Education, Presentation to Select Standing Committee on Public Accounts Re Government's Post-secondary Expansion – 25,000 Seats by 2010, May 31, 2007

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Follow-up Correspondence from Jamie Orr, Audit Director, Office of the Auditor General of British Columbia to Mr. Rob Fleming, Chair of the Select Standing Committee on Public Accounts, November 6, 2007

Ministry of Transportation Report to the Select Standing Committee on Public Accounts Re Changing Course, October 16, 2007

Office of the Auditor General of British Columbia, Presentation Re Switching Tracks: A Review of the BC Rail Investment Partnership, October 16, 2007

Ministry of Transportation Report to the Select Standing Committee on Public Accounts Re Switching Tracks, October 16, 2007

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Office of the Auditor General of British Columbia, Presentation Re the Child and Youth Mental Health Plan, November 20, 2007

Ministry of Children and Family Development, Response to Recommendations, November 20, 2007

## FEBRUARY 11, 2008

Office of the Auditor General of British Columbia, Presentation Re 2007 Follow-up Report, February 11, 2008

Ministry of Health Response to February 2007 Follow-up Report, February 11, 2008

Office of the Auditor General of British Columbia, Presentation Re Infection Control – The Provincial Overview, February 11, 2008

Ministry of Health, Presentation Re Infection Control in British Columbia – A Provincial Approach, February 11, 2008